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ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

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FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC PRIORITY 9179

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C O R R E C T E D C O P Y (INFO ADDEES ADDED)

EEO 11652: N/A

TAGS: EFIN, PFOR, JM

SUBJECT: JAMAICAN ECONOMIC SITUATION:

REFS: (A) KINGSTON 3410 (B) KINGSTON 4060

(C) KINGSTON 3636 (D) KINGSTON 1989

1. SUMMARY: AS BACKGROUND TO PM MANLEY'S ANTI-INFLATION PACKAGE (REFTELS A AND B), THIS TELEGRAM SUMMARIZES HIGHLIGHTS PRESENT DIFFICULT JAMAICAN ECONOMIC SITUATION WHICH IS RESULT OF VARIETY OF FACTORS--INCLUDING U.S. RECESSION, CONTINUED WORLD WIDE INFLATION, DOMESTIC POLITICAL CONSTRAINTS, AND GOJ'S PIECEMEAL APPROACH TO PROBLEMS. END SUMMARY

2. TRADE DEFICIT: JAMAICAN TRADE DEFICIT FIRST SIX

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MONTHS 1975 WAS J\$150.8 MILLION OR J\$89.3 MILLION

MORE THAN FOR COMPARABLE 1974 PERIOD. DESPITE RESTRICTIONS, IMPORTS INCREASING FASTER THAN EXPORTS AND BY END OF 1975 EXPECTED TO HIT J\$1.2 BILLION. JANUARY-JUNE 1975 EXPORTS WERE J\$370.3 MILLION, ABOUT J\$60 MILLION MORE THAN FOR SAME 1974 PERIOD, WHILE JANUARY-JUNE IMPORTS WERE J\$521 MILLION, OR ABOUT J\$131 MILLION HIGHER. MAJOR EXPORTS ARE BAUXITE, ALUMINA, SUGAR, AND BANANAS, FACT EARNINGS HAVE NOT FALLEN MORE DRASTICALLY IN FACE OF DECLINING PRODUCTION AND EXPORTS DUE TO INCREASED PRICES. BAUXITE AND ALUMINA EXPORTS AFFECTED BY U.S. RECESSION AND IN BOTH CASES JANUARY-JUNE PRODUCTION 10 PERCENT BELOW COMPARABLE 1974 PERIOD. CLOSURE OF REVERE AND STRIKE AND "GO-SLOWS" AFFECTING REST OF INDUSTRY IN RECENT WEEKS CAN BE EXPECTED CUT ANNUAL OUTPUT STILL FURTHER. SUGAR PRODUCTION DOWN BY 5 PERCENT-7 PERCENT FOR FIRST SIX MONTHS COMPARED TO 1974; SIMILAR PATTERN EXISTS FOR BANANAS WITH BOTH INDUSTRIES AFFECTED BY DROUGHT AND LABOR DISPUTES. 1976 SUGAR PRODUCTION ESTIMATED AT 326,000 TONS, ABOUT 30,000 TONS LESS THAN IN 1975. COMPLICATING SUGAR SITUATION IS FACT CURRENT NEGOTIATED EEC PRICE OF J\$520 PER TON EFFECTIVE ONLY TO END OF 1975. BASIS PRICE FOR 1976-1977 SHIPMENTS TO EEC WILL BE J\$302 PER TON (ABOUT JAMAICAN COST OF PRODUCTION) UNLESS CARIBBEAN CAN SECURE BETTER DEAL. HIGHER COSTS INCLUDING HIGHER WAGES HAVE NEARLY PRICED JAMAICAN EXPORTS OUT OF CARICOM MARKET AND TRADE DEFICIT WITH GUYANA AND TRINIDAD CONTINUES TO INCREASE.

3. TOURISM: TOURIST INDUSTRY, KEY FOREIGN EXCHANGE EARNER AND EMPLOYER, HARD HIT BY U.S. RECESSION. ALTHOUGH TOTAL VISITORS INCREASED 4 PERCENT OVER FIRST SIX MONTHS 1974, THIS INCREASE DUE MAINLY 65.5 PERCENT MORE PASSENGERS. JANUARY -JUNE 1975 STOPOVERS (OVERNIGHT OR LONGER) ARE DOWN 9.5 PERCENT AND MAIN GROUP OF TOURISTS (U.S.) DOWN 13.8 PERCENT FROM COMPARABLE 1974 PERIOD. ESTIMATED TOURIST EXPENDITURES JANUARY - APRIL 1975 (WHICH IS "HIGH SEASON") ARE J\$52.5 MILLION -- OR J\$4 MILLION LESS THAN SAME PERIOD LAST YEAR. COMBINATION OF LOW OCCUPANCY RATES AND HIGH COSTS LIMITED OFFICIAL USE

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HAVE RESULTED IN NUMBER OF HOTEL CLOSURES, PARTICULARLY IN MONTEGO BAY AREA, WITH RESULTING UNEMPLOYMENT OF ESTIMATED 3,000 PERSON.

4. INFLATION:

(PRICES); SOME OF DOMESTIC INFLATION ATTRIBUTED TO CONTINUED RISING PRICES OF JAMAICA'S MAJOR IMPORTS. FUEL

ROSE FROM 11 PERCENT OF IMPORT
COSTS IN 1971 TO 24 PERCENT IN 1974. IN
1974 ESTIMATED THREE-QUARTERS OF JAMAICAN IMPORTS WERE
FOOD, FUEL, OTHER RAW MATERIALS, AND CONSTRUCTION
MATERIALS. ANNUAL AVERAGE CONSUMER
PRICE INDEX INCREASED BY 27 PERCENT AND 32 PERCENT
IN URBAN AND RURAL AREAS RESPECTIVELY. ANNUAL RATE OF
INCREASE THROUGH JULY 1975 WAS 16.5 PERCENT IN KINGSTON AND
18 PERCENT IN RURAL AREAS (BUT EXPECTED TO BE
21 PERCENT BY YEAR END) -- WELL ABOVE GOJ
ANNOUNCED TARGET OF ANNUAL RATE OF 8 PERCENT. COMPARED TO
PREVIOUS YEARS, MAJOR FACTORS CONTRIBUTING
TO INFLATION ARE INTERNAL.

(INCOMES): GOJ HAS JUST ANNOUNCED MINIMUM WAGE OF
J\$20 FOR 40 HOUR WEEK. (WEEKLY MINIMUM WAGE FOR IMPACT
PROGRAMME WORKERS--GOJ VERSION OF W P A PROJECT--IS
J\$26.50.) IN 1974 80 PERCENT OF WAGE SETTLEMENTS PROVIDED
INCREASES BETWEEN 30 0/0 TO 60 0/0 AND 9 0/0 GAVE INCREASES OF
70 0/0-90 0/0. IN 1975 ACCORDING TO PM MANLEY ALL
SETTLEMENTS TO DATE HAVE
BEEN IN LATTER RANGE. GROWTH IN PRIVATE
CONSUMPTION CONSISTENTLY GREATER THAN DISPOSABLE INCOME
AND GOVERNMENT CONSUMPTION, MAINLY DUE TO HIGH PUBLIC
SECTOR WAGES AND IMPACT PROGRAMME, INCREASED BY 42 0/0
IN 1974. INCREASED MONEY INCOMES ONE OF MAJOR INFLATIONARY
PRESSURES IN ALREADY STAGNANT ECONOMY.

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5. BALANCE OF PAYMENTS: REFTEL C). PRESENT SITUATION
ALMOST COMPARABLE TO THAT IN JANUARY 1974 WHEN PM MANLEY
ANNOUNCED "SURVIVAL PACKAGE" TO SURMOUNT PROBLEMS TRIGGERED
BY OPEC OIL PRICE INCREASE. (LATEST INCREASE EXPECTED
TO COST GOJ ADDITIONAL J\$20 MILLION.) FINANCE MINISTER
COORE ANNOUNCED NET FOREIGN EXCHANGE RESERVES AT J\$80
MILLION AT END OF AUGUST. REASONS GIVEN WERE SPECULATION
AGAINST POSSIBLE DEVALUATION OF JAMAICAN DOLLAR AND
ACCELERATED IMPORTS PRIOR TO ANNOUNCEMENT OF NEW GOJ
FOREIGN EXCHANGE CONTROLS ANTICIPATED IN PM'S PHASE I
MESSAGE. TRADITIONAL DEFICITS IN TRADE AND CURRENT
ACCOUNTS MAINLY FINANCED BY CAPITAL INFLOWS FROM DIRECT
INVESTMENT OF BAUXITE COMPANIES AND OFFICIAL LONG TERM
BORROWING. PRIVATE CAPITAL INFLOWS HAVE SLOWED DRASTICALLY,
AND GOJ INCREASINGLY HARD PRESSED TO OBTAIN NEEDED CAPITAL
FROM EITHER INTERNATIONAL LENDING AGENCIES OR PRIVATE
SOURCES. AS ONE OF "RICHER" LDC'S THAT DOES NOT QUALIFY
FOR CONCESSIONAL LOANS, GOJ INCREASINGLY REQUIRED TO RELY
ON COMMERCIAL BORROWING WHICH HAS CAUSED CHANGE IN
STRUCTURE OF EXTERNAL DEBT AS WELL AS HIGHER DEBT SERVICE
PAYMENTS. DEBT SERVICE 5.4 0/0 OF EXPERTS IN 1974 AND
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PAYMENTS EXPECTED TO DOUBLE BETWEEN 1974 AND 1976. (FYI
EMBASSY UNDERSTANDS GOJ HAS BORROWED US\$88 MILLION TO DATE
ON EURO-DOLLAR MARKET.) LATEST BALANCE OF PAYMENTS
ESTIMATES SHOW ANTICIPATED OVERALL DEFICIT OF J\$41 MILLION
AT END OF 1975.

6. GOJ BUDGET: (REFTEL D). FY 1975/1976 EXPENDITURES
ORIGINALLY ESTIMATED AT J\$582 MILLION RECURRENT AND J\$328
MILLION CAPITAL. PM ANNOUNCED IN PHASE II SPEECH THAT
INFLATIONARY PRESSURES HAD PUSHED EXPENDITURES TO J\$956
MILLION, BUT REVIEW OF OPERATIONS HAD MADE POSSIBLE CUTBACK
OF J\$35 MILLION. PRESENT REVENUES NOT SUFFICIENT
TO FINANCE RECURRENT BUDGET WITH SHORTFALL BEING PROVIDED
FROM CAPITAL DEVELOPMENT FUND (BAUXITE LEVY)--J\$54
MILLION FOR RECURRENT EXPENDITURES AND J\$70 MILLION TOWARD
CAPITAL BUDGET. 1975/1976 BUDGET DEFICIT APRIL-JULY IS
J\$118.5 MILLION, OR J\$70.6 MILLION MORE THAN SAME PERIOD
PREVIOUS YEAR. REVENUES WERE J\$168.5 MILLION (J\$152.2 IN
1974 AND EXPENDITURES J\$287.0 MILLION (J\$250 MILLION IN
1974). DEFICIT FINANCED MAINLY BY LOCAL BORROWING (J\$38.3
MILLION), FOREIGN BORROWING (J\$37.8 MILLION), AND CASH

DRAW DOWNS. REVENUES FROM BAUXITE LEVY IN 1975 CALENDAR YEAR ESTIMATED AT J\$94.6 MILLION, J\$57.8 MILLION TO BE PAID IN OCTOBER AND J\$36.8 MILLION END OF DECEMBER. REVENUES HAVE HELD UP DESPITE PRODUCTION CUTBACKS BECAUSE OF HIGHER PRICES FOR ALUMINA. GOJ ALSO RECEIVED J\$21.1 MILLION AS ADJUSTMENT ON 1974 PAYMENTS.

7. OTHER CONSTRAINTS: ALTHOUGH OFFICIAL UNEMPLOYMENT ESTIMATE IS 20 0/0 COMPARED TO 23 0/0 IN 1972, MUCH OF CHANGE RESULT OF GOJ'S WORK PROGRAMS AND EXTENSION OF SCHOOL LEAVING AGE BY TWO YEARS AND DOES NOT REPRESENT "REAL" EMPLOYMENT INCREASE. 62 0/0 OF POPULATION UNDER AGE 25, 41 0/0 IN URBAN AREAS WITH LARGEST CONCENTRATION IN KINGSTON AREA. EFFECTS OF FAMILY PLANNING ONLY BEGINNING TO BE FELT; MIGRATION HAS PROVIDED MAJOR "SAFETY VALVE". UNCERTAINTY SURROUNDING GOJ POLICIES AND CONCERN FOR POLITICAL TRENDS HAVE CAUSED SHARP INCREASED MIGRATION OF TECHNICAL, PROFESSIONAL, AND MANAGERIAL SKILLS, AND CONTRIBUTE TO STAGNATION OF PRIVATE SECTOR

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8. COMMENT: (A) PRACTICALLY ALL OBSERVERS AGREE INCOMES POLICY NEEDED. PRESENT WAGE RATES UNREALISTIC IN MANY AREAS BECAUSE OF LOW LEVEL JAMAICAN PRODUCTIVITY. PM ANNOUNCED OCTOBER 8 NO AGREEMENT NOW POSSIBLE ON WAGE GUIDELINES AND THAT DISCUSSIONS WOULD CONTINUE FOR ADDITIONAL SIX MONTHS. LABOR UNIONS HIGHLY POLITICIZED AND IN VIEW RECENT POWER STRIKE AND REFUSAL RETURN TO WORK, THERE ARE SERIOUS QUESTIONS WHETHER GOJ CAN CONTROL UNIONS, AND UNION LEADERS THEIR WORKERS. JAMAICAN PUBLIC SERVICE (POWER) CONTRACT STILL NOT SETTLED AND NEGOTIATIONS CONTINUING BETWEEN WORKERS AND BAUXITE INDUSTRY.

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(B) FROM FISCAL STANDPOINT, GOJ NEEDS TO CURTAIL BUDGET EXPENDITURES AND RESTRUCTURE BUDGET. CIVIL SERVANTS IN FINANCIAL FIELD SHOW EVIDENCE OF INCREASING FRUSTRATION AT FAILURE OF GOJ TO COORDINATE ITS ACTIONS. PM'S ANNOUNCED CUT OF J\$35 MILLION WAS MINIMAL, MANY EXPECT IT WILL NOT OCCUR IN FACT, AND PUBLIC SECTOR WILL CONTINUE TO COMPETE WITH PRIVATE FOR ALREADY SCARCE RESOURCES. GOJ'S FISCAL POLICIES HAVE CAUSED CONCERN ON PART OF BOTH INSTITUTIONAL AND PRIVATE LENDERS, AND IT HAS BECOME INCREASINGLY CLEAR THAT COMMERCIAL BANKS UNWILLING MAKE ADDITIONAL LOANS TO GOJ UNLESS TIED TO SPECIFIC PROJECT.

(C). FALL-OFF IN PRIVATE CAPITAL INFLOW UNQUESTIONABLY RELATED TO CONTRADICTORY ATTITUDE OF GOJ TOWARD FOREIGN INVESTMENT AS WELL AS WORLDWIDE ECONOMIC RECESSION AND STILL UNRESOLVED BAUXITE NEGOTIATIONS. PM MAY HAVE CONFIDENCE OF PNP BUT HE CERTAINLY DOES NOT HAVE THAT OF POTENTIAL FOREIGN OR DOMESTIC INVESTOR. AS LONG AS UNCERTAINTY REMAINS, THERE IS LITTLE LIKELIHOOD OF IMPROVEMENT. EXACERBATING ALL FOREGOING IS LACK OF JAMAICAN PLANNING AND AD HOC CHARACTER GOJ
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MANAGEMENT OF ECONOMY

(D) THERE IS NO DOUBT SOME OF PRESENT JAMAICAN DIFFICULTIES TEMPORARY IN THAT THEY ARE DIRECTLY RELATED TO U.S. RECESSION (ESPECIALLY BAUXITE AND TOURISM); SITUATION WILL IMPROVE WHEN UPTURN OCCURS IN U.S., ALTHOUGH SOME TIME LAG INEVITABLE. ON OTHER HAND, GOJ DOES NOT HAVE RESOURCES TO FINANCE DEVELOPMENT, AND COUNTRY IS NOT RICH ENOUGH TO QUALIFY AS "FAT CAT" OR POOR ENOUGH TO BE CONSIDERED "PAUPER". GOJ HAS TRIED TO OFFSET PRIVATE INVESTMENT BY INCREASED PUBLIC SECTOR EXPENDITURES FINANCED

INCREASINGLY BY EXTERNAL SHORT TERM BORROWING. (FINANCE MINISTER COORE PRESENTLY VISITING NEW YORK, LONDON, KUWAIT, AND SAUDI ARABIA IN ATTEMPT SECURE MEDIUM TERM LOAN; WE

UNDERSTAND CENTRAL BANK GOVERNOR BROWN TALKING TO NEW YORK BANKERS THIS WEEK.) 1974 SUCCESSIVE EVENTS OF BAUXITE LEVY WINDFALL, HIGHER SUGAR PRICES, INCREASING NUMBERS OF TOURISTS, CONTRIBUTED TO CERTAIN AMOUNT OF GOJ EUPHORIA IN WHICH THERE WAS COMMITMENT TO ALL, PRIORITY FOR ALL, AND PLANNING FOR NONE. ANTI-INFLATION PACKAGE IS TREATMENT OF SYMPTOMS RATHER THAN CAUSES, E.G. SOME EXTENSION AND TIGHTENING OF ALREADY EXISTING CONTROLS. ONLY DEFLATIONARY ASPECT IS COMPULSORY SAVINGS SCHEME ENVISAGED AS NATIONAL HOUSING TRUST, IMPLEMENTATION OF WHICH WILL TAKE CONSIDERABLE TIME. WHILE GOJ UNQUESTIONABLY NEEDS MEDIUM OR LONG TERM CREDITS AT SOMETHING LESS THAN COMMERCIAL RATES TO FINANCE IMPORTS RELATED TO DEVELOPMENT, THERE IS ALSO NECESSITY TO PUT ITS OWN HOUSE IN ORDER. IN SHORT, TO REPLACE SCHEMES WITH PLANNING AND PRIORITIES, VISIONS WITH PRODUCTIVE EFFORT, AND IDEOLOGY WITH RATIONAL ECONOMICS. THERE IS SOME INDICATION THIS PROCESS HAS BEGUN IN FACE OF PRESENT REALITIES. GERARD

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